



(Knowledge for Development)

# **KIBABII UNIVERSITY**

**UNIVERSITY EXAMINATIONS**

**2021/2022 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER**

**MAIN EXAMINATION**

**FOR THE DEGREE OF BACHELOR OF COMMERCE**

**COURSE CODE:BCA322**

**COURSE TITLE:PRINCIPLES OF AUDITING**

**DATE: 5<sup>TH</sup> SEPTEMBER,2022 TIME:9.00AM - 11.00AM**

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## **INSTRUCTIONS TO CANDIDATES**

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

**TIME: 2 Hours**

KIBU observes ZERO tolerance to examination cheating

This Paper Consists of 6 Printed Pages. Please Turn Over.

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## QUESTION ONE

- a) Why is an external audit necessary for companies registered under the Companies Act? 3mks
- b) Under what circumstances is one ineligible for appointment as an auditor of a company? 4mks
- c) Explain the procedure a company has to follow when changing its auditors. In your discussion explain 'dismissal' and 'appointment' of auditors by a company? 8mks
- d) List the rights and duties of an independent auditor. 5mks
- e) List and briefly explain five disadvantages of an interim audit. 10mks

**(Total: 30 marks)**

## QUESTION TWO

You have been appointed the auditor of United Millers Company Limited, a medium manufacturing company which is quoted on the stock exchange.

### Required:

- a) List the important matters which must be included in the letter of engagement. 14mks
- b) Explain the purpose of such a letter. 6mks

**(Total: 20 marks)**

## QUESTION THREE

The auditor's operational standard states, "The auditor should obtain relevant and reliable audit evidence sufficient to enable him to draw reasonable conclusions thereon".

### Required:

- a) What factors would influence the judgment of the auditor with regard to sufficiency of audit evidence? 10mks
- b) What factors would influence the auditor to accept third party certificates as audit evidence? 7mks
- c) State the important factors that must be considered when assessing the reliability of audit evidence. 3mks

**(Total: 20 marks)**

#### QUESTION FOUR

Your firm of accountants has been the auditors of Leather Merchants Limited, a company that exports both raw and semi-finished leather products to European and Asian markets. The company has decided to introduce a comprehensive computer system to manage its accounting and administrative functions.

**Required:**

- a) Outline the practical difficulties you would encounter as an auditor as a result of the proposed introduction of a computerized accounting system. 10mks
- b) Explain how you would overcome the difficulties identified in (a) above. 5mks
- c) Identify and explain the benefits that the company would derive as a result of putting in place a comprehensive computerized accounting system. 5mks

**(Total: 20 marks)**

#### QUESTION FIVE

An internal control system is designed to provide reasonable assurance that all the control objectives are being achieved.

**Required:**

- a) What purpose does an internal control system serve in an organization? 6mks
- b) Identify and briefly explain the three key elements of a good internal control system. 6mks
- c) Identify and briefly explain any four inherent limitations of an internal control system. 8mks

**(Total: 20 marks)**